

CITY COUNCIL BRIEFING

NORFOLK CONSORTIUM MEDICAL BENEFIT PROGRAM

MARCH 18, 2014

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Norfolk

Questions/Topics for today

- Was it a smart decision to self-insure the Norfolk Consortium medical benefit program?
- How will the Affordable Care Act's (ACA) Shared-Responsibility rules impact the Norfolk Consortium?
- What share of an employee's monthly premium is covered by the City compared to NPS and other Virginia Governments?
- What are the cost differences for Active Employees vs. Pre-65 Retirees?
- What alternatives exist for pre-65 Retirees including access to the Public Exchanges?
- Recommendations for the future

What is the Norfolk Consortium?

- The City of Norfolk, Norfolk Public Schools, and Norfolk Redevelopment and Housing Authority have collectively purchased benefits for over 20 years as The Norfolk Consortium

	Employees	Dependents	Total enrolled	% of employees enrolled	% of dependents enrolled	% of total enrolled
City of Norfolk	4,491	3,889	8,380	46.2%	53.1%	49.2%
Norfolk Public Schools	4,955	3,239	8,194	51.0%	44.2%	48.1%
NRHA	272	200	472	2.8%	2.7%	2.8%
<i>total</i>	9,718	7,328	17,046	100.0%	100.0%	100.0%

Based enrollment data from Optima – Post-65 Retirees excluded

Was it a smart decision to self-insure the
Norfolk Consortium medical benefit program?

Self-Insurance vs. Fully-Insured

Good idea?

- Why self-insure? Because it is what large employers do.
- 93% of employers with > 10,000 employees self-insure medical plans
- Why?
 - Significantly improves flexibility
 - Claim risk is predictable for a large population and unpredictable costs (catastrophic claims) can be managed using stop loss insurance
 - Avoids additional taxes – state premium tax and ACA Insurer fees
 - about 4% in 2014 and growing in future
 - Eliminates insurer risk/profit charges
 - Overall cost avoidance usually 6 – 8%

2014 Total Projected Fully Insured Premium Cost*	\$93,018,000
2014 Projected Self Funded Health Plan Costs**	\$86,768,000
Projected Self-Funded cost avoidance	\$6,250,000

* Premium rates provided by Optima, as shown in RFP financials

** As shown in updated active/pre-65 retiree self funded cost projections document dated 2/13/2014

How will the Affordable Care Act's (ACA) Shared-Responsibility rules impact the Norfolk Consortium?

Affordable Care Act (ACA)

What's Next in 2015 and Beyond?

To be addressed



Plan Design

- Minimum essential coverage.*
- Minimum value (60%).*
- Affordable contributions ($\leq 9.5\%$ of household income or employer safe harbor).*
- Non-discrimination rules for insured plans sometime after 2014.

Eligibility

- Full-time employees averaging at least 30 hours/week.*
- Definition of dependent children.*
- Auto enrollment sometime after 2014.

Fees/Rebates

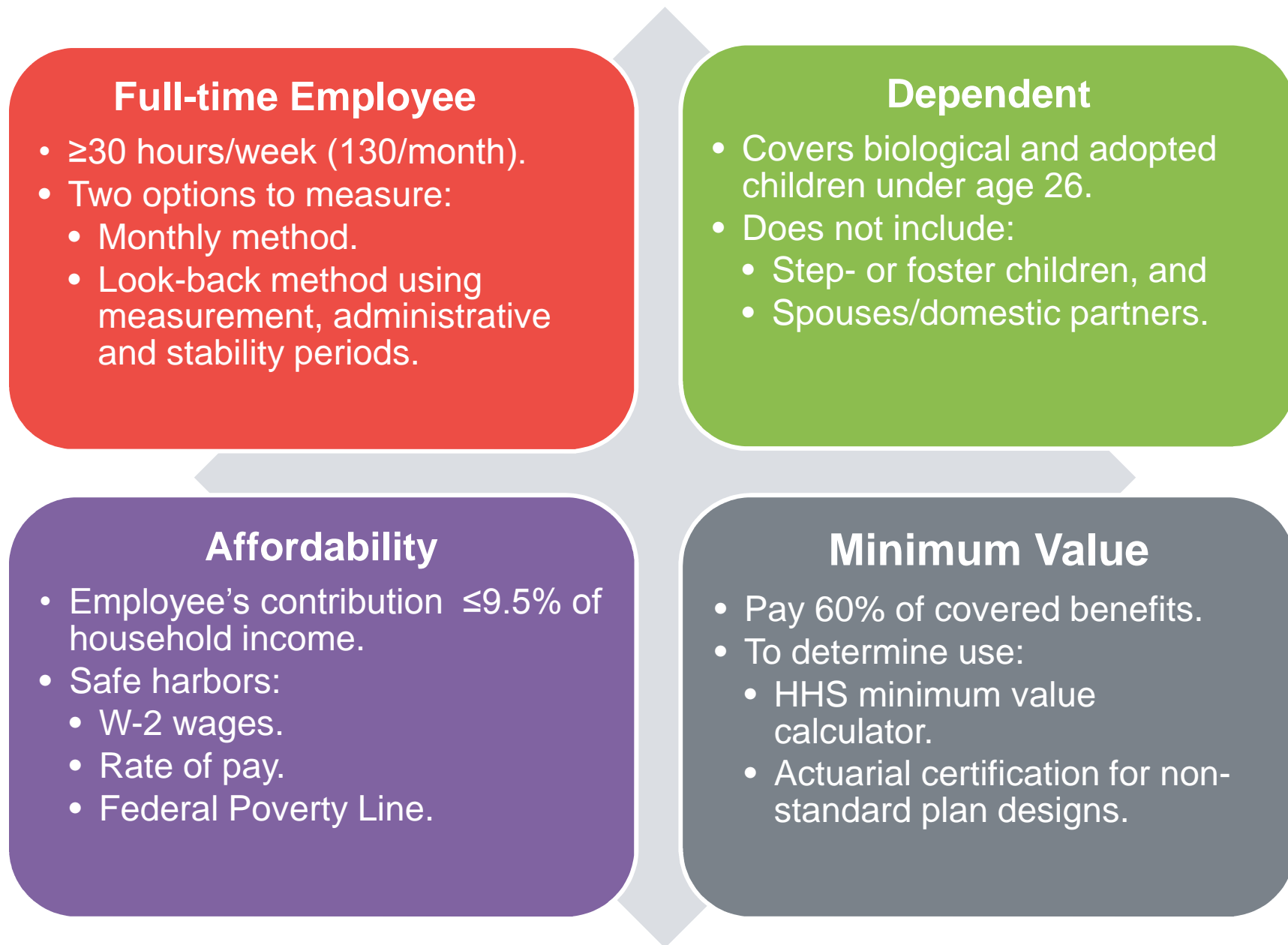
- Transitional reinsurance fees first due early 2015 (for 2014).
- 2018 - 40% excise tax on "high cost" or Cadillac coverage.

Reporting

- Reporting and disclosure of full-time employees and coverage beginning in 2016 (for 2015).
- Quality and transparency reporting sometime after 2014.

* To avoid employer shared responsibility payments.

Employer Shared Responsibility Requirements in 2015 and Beyond



Employer Shared Responsibility Requirements in 2015

- **Large employers** must offer minimum essential coverage to **substantially all** full-time employees and **dependent children** or face a **\$2,000 (indexed) payment**.
- If employers offer coverage that does not provide 60% minimum value or contributions are unaffordable ($>9.5\%$ of employee's household income) *and the employee obtains subsidized coverage in the public exchange*, the employer will be subject to a **\$3,000 (indexed) payment**.
- If a full-time employee not offered employer coverage *obtains subsidized coverage in the public exchange*, the employer will be subject to a **\$3,000 (indexed) payment**.

What's New

- Employers with 50-99 employees now have until 2016 to comply.
- For 2015, "substantially all" means 70% of full-time employees (95% thereafter).
- Dependent children do not include step- or foster children.
- For 2015, can disregard first 80 full-time employees when calculating the \$2,000 (indexed) payment.
- The shared responsibility payments are indexed and increase every year. In 2015, the payment multipliers are estimated to be \$2,080 and \$3,120.
- Additional clarifications on:
 - How to determine full-time status of employees.
 - Hours of service rules, including variable-hour and seasonal employees.

Catalyst for Change: The 2018 Excise Tax

- 40% excise tax starting in 2018 on “high cost” employer-sponsored coverage.
 - Employees include former employees and surviving spouses.
 - Tax is on the “excess benefit” (the amount over the dollar caps).
- Initial cap set at \$10,200/self-only and \$27,500 “coverage other than self-only” (family).
 - Higher thresholds (\$11,850/\$30,950) for retirees and workers in high-risk professions.
 - Higher threshold (\$27,500) for single multiemployer plan coverage.
 - Complex cost indexing and adjustments may apply.

Include in the calculation

- ☑ Employee and employer share of group health plan premium.
- ☑ Contributions to (and certain reimbursements from) a health FSA.
- ☑ Employer contributions to a HSA or an Archer MSA.
- ☑ HRA.
- ☑ Most employer-sponsored on-site clinics.
- ? Employee HSA or Archer MSA contributions if made through pretax salary reduction (perhaps).
- ? Employee Assistance Programs (perhaps).

What share of an employee's monthly premium is covered by the City compared to NPS and other Virginia Governments?

City of Norfolk vs. Norfolk Public Schools

How do benefits differ?

- Same plans offered to both City and Schools (with one exception), yet City employees typically pay more

Plus Plan	NPS Share of Premium	City Share of Premium	Monthly Difference Paid by City Employees	Annual Difference Paid by City Employees
Employee Only	88.4%	84.2%	\$22.35	\$268.20
Employee + Spouse	65.7%	66.4%	-\$10.76	-\$129.12
Employee + Children	73.4%	72.8%	\$2.79	\$33.48
Family	68.8%	66.4%	\$37.52	\$450.24

Value Plan	NPS Share of Premium	City Share of Premium	Monthly Difference Paid by City Employees	Annual Difference Paid by City Employees
Employee Only	96.3%	91.6%	\$21.10	\$253.20
Employee + Spouse	76.7%	78.3%	-\$17.00	-\$204.00
Employee + Children	86.3%	79.7%	\$47.62	\$571.44
Family	80.7%	75.7%	\$71.76	\$861.12

What are other Virginia Governments doing? Blinded Survey Participants (shown randomly as respondents A – J)

- Chesterfield County Government
- City of Lynchburg
- City of Portsmouth
- City of Richmond
- Commonwealth of Virginia
- Fairfax County Government
- Loudon County Government
- Stafford County Public Schools
- Virginia Beach City Public Schools
- Warren County Public Schools

Employee Contributions

Comparison to Blinded Peer Group of Virginia Governments

2014			2013									
Employee Only Coverage	City of Norfolk Plus/Value	NPS ¹ Plus/Value	H	D	G	I	F	E	C	A	J	B
POS/PPO	\$87 / \$39	\$64 / \$18	\$58	\$84	\$85	\$87	\$101	\$123	\$149	\$175	\$265	\$398

2014			2013									
Family Coverage	City of Norfolk Plus/Value	NPS ¹ Plus/Value	H	D	G	I	F	E	C	A	J	B
POS/PPO	\$590 / \$359	\$553 / \$288	\$785	ID	\$426	\$574	\$488	\$346	\$586	\$1,019	\$1,095	\$772

- Norfolk City and Schools data does not include Health Risk Assessment participant discount
- Contributions shown represent 2014 Norfolk amounts, yet for peer organizations data shown is representative of 2013 contribution amounts
- ¹Contributions have been converted to 12 month amounts for comparison purposes

What are the cost differences for Active Employees vs. Pre-65 Retirees?

Actives vs. Retiree Claims History

Medical and Pharmacy Per Employee Per Month (PEPM)

Norfolk Consortium

2009 - 2012 Medical and Pharmacy Costs*

	Active – PEPM*	Pre-65 Retirees – PEPM*	Ratio of Pre-65 to Active Claims Cost	Blended Claims Cost PEPM*
2009	\$ 435.68	\$ 863.96	1.98	\$ 479.16
2010	\$ 480.08	\$ 719.04	1.50	\$ 504.88
2011	\$ 545.95	\$ 782.42	1.43	\$ 571.59
2012	\$ 539.60	\$ 902.40	1.67	\$ 577.59

Average 1.65

** Based on Jan 2009 - December 2012 incurred claims and enrollment data provided by Optima*

What alternatives exist for pre-65 Retirees to purchase coverage including access to the Public Exchanges?

Open Enrollment ends March 31

Most people qualify for savings. It's easy to apply now.



See if you can get lower
costs

1-page guide to getting
coverage

Find local help

Call 1-800-318-2596 for
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Who is Eligible for Subsidized Government Insurance?

Assumes States Expand Medicaid to 138% FPL¹

Household income \leq **138% FPL**
Eligible for Medicaid.²

Household income between
138% and 400% FPL.
Could be eligible for
subsidized exchange coverage.

Federal Poverty Level (FPL)

2015 eligibility threshold³

Family size of	2014	Medicaid 138% FPL	Exchange 400% FPL
1 (single)	\$11,670	\$16,105	\$46,680
2	\$15,730	\$21,707	\$62,920
3	\$19,790	\$27,310	\$79,160
4	\$23,850	\$32,913	\$95,400
5	\$27,910	\$38,516	\$111,640
6	\$31,970	\$44,119	\$127,880
7	\$36,030	\$49,721	\$144,120
8	\$40,090	\$55,324	\$160,360

1. Most adults will be eligible for Medicaid up to 138% of FPL.

2. Health reform legislation specifies income threshold of 133% FPL but also requires states to apply an “income disregard” of 5% of FPL in meeting income test; effective income threshold for eligibility is 138%.

3. Based on 2014 FPL (note that some states may use 2013 FPL (\$11,490) for Medicaid eligibility in 2014).

2014: Products Offered in Exchanges

Exchange Products Will Differ From Group Plans

Plan options in public exchange are named after metals.

	Public exchanges					Large ER Group
Features	Bronze	Silver	Gold	Platinum	Catastrophic age <30 and those eligible for a hardship waiver	Plan design ¹
Plan value	60%	70%	80%	90%	under 60%	≥60%

- Silver – second-lowest cost plan – is baseline for calculating government subsidy.
- Government subsidy and member contribution requirement calculated based on income, vary by level between 100% FPL and 400% FPL.
- Once subsidy determined for silver plan, can use for gold plan (pay more) or bronze plan (pay less).
- No subsidies are available for catastrophic coverage.

1. Some provisions apply differently for grandfathered and non-grandfathered plans. Employer plans generally must offer coverage of at least 60% value to full time employees to avoid shared responsibility payments.

Eligibility for Exchange Premium Tax Credits Based on Second-lowest Cost Silver Plan in 2015

Individual in 2015 (Based on 2014 FPL of \$11,670)

% Poverty level	Annual household income	Plan value with cost-sharing credit	Maximum monthly employee contribution in exchange	
			% Household income	Dollars
<100%	<\$11,670	Medicaid / Access gap	N/A	N/A
<138%	<\$16,105	Medicaid (if expanded)	N/A	N/A
138%	\$16,105	+24% to 94%	3.00%	\$41
150%	\$17,505	+17% to 87%	4.00%	\$59
200%	\$23,340	+3% to 73%	6.30%	\$123
250%	\$29,175	70%	8.05%	\$196
300%	\$35,010	70%	9.50%	\$278
400%	\$46,680	70%	9.50%	\$370
>400%	>\$46,680	70%	No maximum	Full cost

Maximum monthly contribution to avoid employer penalties if using FPL safe harbor
 (\$11,670 x 9.5% ÷ 12 = \$92.38 (based on 2014 FPL; safe harbor for 1/1/15 calendar year plans)
Other options for affordable contribution safe harbor are: W-2 earnings and rate-of-pay.

Recommendations for the future

Key Elements of 3 Year Strategy

- Simplify offerings
 - ✓– Consolidate plan years to January 1
 - ✓– 2 plan options
- Change plan funding mechanism
 - ✓– Transition from fully-insured to self-insured
- Progressively add consumerist features and elements to the medical plans
 - ✓– Copays → Coinsurance
 - Expand member use of available tools
- Develop a culture of health through measurement and rewards
 - ✓– Introduce meaningful incentives to reward healthy behaviors or punish unhealthy ones
 - Increase effort required to earn incentive over time
 - Force disruption to break inertia of employees not re-evaluating their plan options
- Offer meaningful plan options that are suited to a diverse population
 - ✓ Denotes strategy already underway

Key Elements of 3 Year Strategy (cont.)

- Aggressively manage controllable costs
 - Post-retirement medical costs - phased transition to risk-adjusted retiree rates
 - ✓– Dependent eligibility verification
 - Transition employer contribution methodology to establish a consistent contribution amount applied to available plans
- Achieve best pricing for goods and services
 - ✓– Take advantage of best network discounts (Medical & Rx)
 - ✓– Continuously re-evaluate purchasing effectiveness of stop loss insurance

✓ Denotes strategy already underway

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